

Don't miss the IPERS FY2004 Financial Summary inside this special edition of *Inside IPERS* and *Pensioners' Post*

FY2006 Special Service contribution rates

IPERS’ actuary completed the annual valuation and certified the following contribution rates effective July 1, 2005:

	Member	Employer	Total Rate
Protection occupations	6.16%	9.23%	15.39%
Sheriffs and deputy sheriffs	8.20%	8.20%	16.40%

The rate for regular members will not change unless the Legislature implements the recommendation of the Benefits Advisory Committee and Investment Board. Read about the recommendation on page 1.

*Inside IPERS* and *Pensioners' Post* are published twice a year by the Iowa Public Employees' Retirement System. This special edition includes a financial summary, which is not meant to provide a complete financial picture. For a complete audited financial report, view the FY2004 Comprehensive Annual Financial Report at [www.ipers.org](#), or contact IPERS for a printed copy. All IPERS publications will be made available in alternative formats upon request.

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IPERS RETIREMENT PLANNING SPRING/SUMMER 2005

Group presentations provide an overview of IPERS and answers to general questions. There is no registration for the group presentation. Individual consultations provide members with their projected retirement benefits and other plan provisions.

Call IPERS at 1-800-622-3849 to schedule an individual counseling session. The sessions fill quickly, so call early. You will receive a letter confirming your appointment.

**SIOUX CITY—JANUARY 24-27, 2005**

Convention Center  
801 Fourth Street  
GROUP PRESENTATION  
Jan. 24, 6:30 p.m., rm. 7  
INDIVIDUAL CONSULTATIONS  
Jan. 25-27, 8:30 a.m.–6:30 p.m.,  
rm. 8 and 9

**HARLAN—FEBRUARY 9, 2005**

Myrtue Memorial Hospital  
1213 Garfield Avenue  
INDIVIDUAL CONSULTATIONS  
9 a.m.–5 p.m.

**ATLANTIC—FEBRUARY 10, 2005**

Cass County Memorial Hospital  
1501 East 10th Street  
INDIVIDUAL CONSULTATIONS  
9 a.m.–5 p.m.

**CEDAR RAPIDS—FEBRUARY 14-17, 2005**

Kirkwood Community College  
6301 Kirkwood Boulevard Southwest  
Iowa Hall, Marland Room  
INDIVIDUAL CONSULTATIONS  
Feb. 14, 2 p.m.–6 p.m.  
Feb. 15-17, 8:30 a.m.–6 p.m.

**FORT DODGE—MARCH 1 & 2, 2005**

AEA 8: Prairie Lakes  
1235 Fifth Avenue South  
INDIVIDUAL CONSULTATIONS  
Mar. 1, 8:30 a.m.–6:30 p.m.  
Mar. 2, 8:30 a.m.–6 p.m.

**JEFFERSON—MARCH 3 & 4, 2005**

Greene County Extension Service  
104 West Washington Street  
INDIVIDUAL CONSULTATIONS  
Mar. 3, 8:30 a.m.–5:30 p.m.  
Mar. 4, 8:30 a.m.–11:30 a.m.

**CORNING—MARCH 9, 2005**

Adams County Courthouse  
500 Ninth Street  
INDIVIDUAL CONSULTATIONS  
9 a.m.–4 p.m.

**RED OAK—MARCH 10, 2005**

Montgomery County Courthouse  
105 Coolbaugh Street  
INDIVIDUAL CONSULTATIONS  
9 a.m.–4 p.m.

**CORALVILLE—MARCH 15-17, 2005**

AmericInn  
2597 Holiday Road  
INDIVIDUAL CONSULTATIONS  
Mar. 15 & 17, 8:30 a.m.–6 p.m.  
Mar. 16, 8:30 a.m.–6:30 p.m.

**COUNCIL BLUFFS—MARCH 28-31, 2005**

Public Library  
400 Willow Avenue  
GROUP PRESENTATION  
Mar. 28, 7 p.m.  
INDIVIDUAL CONSULTATIONS  
Mar. 29 & 30, 8:30 a.m.–6:30 p.m.  
Mar. 31, 8:30 a.m.–6 p.m.

**CORYDON—APRIL 6, 2005**

Wayne County Courthouse  
100 Lafayette Street  
INDIVIDUAL CONSULTATIONS  
9 a.m.–4 p.m.

**CENTERVILLE—APRIL 7, 2005**

Appanoose County Courthouse  
201 North 12th Street  
INDIVIDUAL CONSULTATIONS  
9 a.m.–4 p.m.

**WATERLOO—APRIL 11-14, 2005**

Hawkeye Community College  
1501 East Orange Road  
GROUP PRESENTATION  
Apr. 11, 6:30 p.m., Tama Hall, rm. 107  
INDIVIDUAL CONSULTATIONS  
Apr. 12-14, 8:30 a.m.–6:30 p.m., Tama Hall,  
rm. 103 & 104

**DAVENPORT—APRIL 25-28, 2005**

Scott County Offices  
428 Western, 6th floor  
GROUP PRESENTATION  
Apr. 25, 6:30 p.m.  
INDIVIDUAL CONSULTATIONS  
Apr. 26, 9 a.m.–6 p.m.  
Apr. 27, 8:30 a.m.–6:30 p.m.  
Apr. 28, 8:30 a.m.–6 p.m.

**CLARINDA—MAY 4, 2005**

Page County Courthouse  
112 East Main Street  
INDIVIDUAL CONSULTATIONS  
9 a.m.–4 p.m.

**SHENANDOAH—MAY 5, 2005**

Shenandoah City Hall  
500 West Clarinda Avenue  
INDIVIDUAL CONSULTATIONS  
9 a.m.–4 p.m.

**DUBUQUE—MAY 9-12, 2005**

The Forum  
2300 Chaney Road  
INDIVIDUAL CONSULTATIONS  
May 9, 3 p.m.–6 p.m.  
May 10, 8:30 a.m.–6:30 p.m.  
May 11 & 12, 8:30 a.m.–6 p.m.

**WEST BURLINGTON—MAY 23-25, 2005**

Southeastern Community College  
1500 West Agency Road, building 400  
GROUP PRESENTATION  
May 23, 6:30 p.m., Little Theater  
INDIVIDUAL CONSULTATIONS  
May 23, 2 p.m.–4 p.m.  
May 24-25, 8:30 a.m.–6:30 p.m.,  
Private Dining Room

**MOUNT PLEASANT—MAY 26, 2005**

Henry County Health Center  
407 South White Street  
Health Education Center  
INDIVIDUAL CONSULTATIONS  
8:30 a.m.–6:30 p.m.

**MASON CITY—MAY 31-JUNE 2, 2005**

North Iowa Area Community College  
500 College Drive  
Activity Center  
GROUP PRESENTATION  
May 31, 6:30 p.m., rm. 101  
INDIVIDUAL CONSULTATIONS  
June 1, 8:30 a.m.–6:30 p.m., rm. 212 & 213  
June 2, 8:30 a.m.–6 p.m., rm. 212 & 213

**CALMAR—JUNE 13-16, 2005**

Northeast Iowa Community College  
1625 Highway 150  
Wilder Hall  
GROUP PRESENTATION  
June 13, 6:30 p.m., auditorium  
INDIVIDUAL CONSULTATIONS  
June 14-16, 8 a.m.–6:30 p.m., rm. 101 &  
105

**ESTHERVILLE—JUNE 27-28, 2005**

Iowa Lakes Community College  
300 South 18th Street  
INDIVIDUAL CONSULTATIONS  
June 27, 2 p.m.–6:30 p.m.  
June 28, 8:30 a.m.–6:30 p.m.

**EMMETSBURG—JUNE 29-30, 2005**

Iowa Lakes Community College  
3200 College Drive  
INDIVIDUAL CONSULTATIONS  
June 29, 10 a.m.–6:30 p.m.  
June 30, 8:30 a.m.–6:30 p.m.

# WINTER 2004/2005 SPECIAL EDITION OF Inside IPERS *and* Pensioners' Post

## CEO COLUMN



IPERS CEO  
**Donna M. Mueller**

I am pleased to send you this special edition newsletter, which includes a financial summary on pages 2 and 3. Providing you financial and performance information reflects my commitment to accountability.

IPERS' performance continues to be strong, as does the commitment of the Governor, Legislature, employers, members, the Investment Board, the Benefits Advisory Committee (BAC), and staff to maintaining a good retirement plan.

Unfortunately, IPERS' good performance and everyone's commitment does not eliminate the need for a contribution rate increase. There are many reasons for this. We must make up for losses from the recent bear markets. Also, our retirees are living longer; therefore, they are drawing pensions longer.

Pensions that are being promised to members should be funded during the working lives of those members so the burden does not fall on future generations. However, our actuary now projects that the contribution rate for our regular members, who make up roughly 96 percent of our membership, is only 90.9 percent of what it should be.

IPERS is different from many other public pension systems in the nation in that our Legislature, rather than a board of trustees, sets rates for our regular members. The Legislature has not changed the contribution rate for regular members since 1979, even though Special Service members pay an actuarially determined rate, which may vary from year to year.

IPERS is a good retirement plan. We must continue to work together to make sure public employees have an adequate retirement income following their dedicated service to Iowans.

**Read IPERS' Fiscal Year 2004 Financial Summary Inside**

## Good investment news offset by needed contribution rate increase

Benefits Advisory Committee asks Legislature to increase contribution rate

IPERS' investments returned 13.78 percent in fiscal year (FY) 2004, well above the 7.5 percent actuarial assumption used to project IPERS' longer-term average annual investment returns. Chief Investment Officer Kathy Comito attributed the high returns to the performance of the public stock markets, which constitute approximately half of IPERS' investments. Equity markets, such as the public stock markets, typically produce the highest returns, but they

also carry the most risk.

"IPERS uses a diversified and balanced investment portfolio to manage overall risk. Investing in only high-risk markets is not prudent," stated Comito.

Although the return will slightly improve IPERS' funded status by reducing the deferred investment losses from previous bear market years, it does not eliminate the trend of an increasing unfunded actuarial liability. (Read more about IPERS' unfunded actuarial liability on page

3.) Therefore, the IPERS Benefits Advisory Committee reissued last year's recommendation to the Legislature to raise the contribution rate by 1 percentage point a year in each of the next 4 years. The rate increase applies to regular IPERS members, who make up about 96 percent of the IPERS membership.

Current finances are sound and benefit payments will not be in jeopardy for years into the future. However, the committee noted that projections continue to show there is a need to act now to preserve future benefits at current levels.

"Because the Senate did not act on our recommendation for an increase last year, we felt we should call for an immediate increase," explained Lowell Dauenbaugh, committee chair.

IPERS filed a bill implementing the recommendation. If the Legislature passes and the Governor signs the bill, the contribution rate for regular members would incrementally increase from the current 9.45 percent to 13.45 percent over 4 years. Each year an actuary determines the rate needed to support the benefits for Special Service members (who make up about 4 percent of the IPERS membership), which is implemented by administrative rule.

Legislative updates will be posted on the IPERS Web site as significant events occur.

**BE IT RESOLVED BY THIS BENEFITS ADVISORY COMMITTEE . . .** that we member and employer associations: . . .

2. Recommend that:

- The contribution rate increases begin no later than July 1, 2005;
- The increase be phased in over a period of 4 years, at the combined rate of 1 percentage point per year for each of the four years;
- The current 60-40 sharing split of contribution rates and the increase in contribution rates between employer and employee be retained; and

3. Recommend that following the implementation of the above-referenced phase-in of increased contribution rates, IPERS be authorized to adjust contribution rates as recommended by the IPERS' actuary. This would allow rates to be adjusted up or down within statutorily approved guidelines and would work to keep IPERS' fiscally sound. Such authority would be in alignment with the authority currently exercised by IPERS in setting actuarial contribution rates for the protection occupation group membership within IPERS.

4. Re-affirm that it is imperative to the statutory mission of IPERS to *maintain* the current benefit structure which provides a core retirement benefit and attracts competent men and women to public employment in Iowa; . . .

Excerpt from the *Resolution by the Benefits Advisory Committee Regarding the Need to Address Unfunded Actuarial Liability* of October 4, 2004

## Investment Board joins call for legislative action

The IPERS Investment Board in December 2004 joined the Benefits Advisory Committee in asking the Legislature to take action in 2005 to address IPERS' unfunded actuarial liability. As the trustee of the IPERS Trust Fund, the Investment Board in 2003 engaged the actuary in an asset/liability study of options to return IPERS to "actuarial balance."

Actuarial balance occurs when projections show that assets can support future benefits and other expenses. Although benefits are not at risk for many years, IPERS' future expenses are projected to exceed future assets. The actuary concluded that investment returns alone could not address IPERS' long-term funding needs.

According to the 2004 actuarial valuation, IPERS' funding status

has continued to decline. Therefore the Investment board unanimously

passed a resolution calling for legislative action.

**BE IT RESOLVED BY THE INVESTMENT BOARD . . .** that: . . .

- Pursuant to the Iowa Public Employees' Retirement System Funding Policy, consideration should be given to increasing the statutory contribution rate; in that, the difference between the normal cost rate and statutory contribution rate has been less than .5% for the past three consecutive years, and the amortization period has exceeded the twenty-four year amortization period called for by the Funding Policy for the past four consecutive years.
- The Board does not want to alter the asset allocation of the Fund to increase projected returns because of the increased risk to the Fund that this would entail.
- The Board concurs with the call for the increase of contribution rates adopted in the IPERS Benefit Advisory Committee Resolution regarding the need to address the unfunded liability of the retirement fund. . . .

Excerpt from the *Resolution by the Investment Board of the Iowa Public Employees' Retirement System Regarding the Need to Address Unfunded Actuarial Liability* of December 2, 2004

**Read more about the IPERS Benefits Advisory Committee and Investment Board on page 2 and at [www.ipers.org](http://www.ipers.org) under the *Investments* and *About IPERS* tabs.**



### The Plan

IPERS and the IPERS Trust Fund are established in Chapter 97B of the Iowa Code. IPERS is designed to be a core retirement benefit for public employees which, when combined with social security benefits and individual savings, will provide an adequate retirement income. IPERS also provides employers a recruitment and retention tool that rewards career public service.

As a defined benefit plan, IPERS pays a monthly pension based on a formula that includes the high three-

year average salary and years of service. The monthly annuity is guaranteed for life, regardless of investment returns or how long a member may live in retirement.

IPERS is funded through a combination of contributions and investment income. Contributions are paid by public employees *and* their employers, as part of employees' total compensation. The contributions and income are deposited in the Trust Fund, which must be used for the exclusive benefit of members.

IPERS is an independent agency within the executive branch of state government. IPERS is administered by Chief Executive Officer Donna M. Mueller, her staff, the Investment Board, and the Benefits Advisory Committee.

The Investment Board is the Fund's trustee. The Board sets investment policy and oversees the actuarial program. The seven voting members include six gubernatorial appointees and the Treasurer of State. Legislative leadership ap-

points the four nonvoting legislative members.

The thirteen-member Benefits Advisory Committee advises IPERS on benefits and services. The Committee selects its members, nine of whom are voting members, from constituent groups representing employers and members. Voting members also include the director of the Iowa Department of Administrative Services and a member of the public.

IPERS is the largest public retirement plan in Iowa.

### The Process

The Legislature and Governor establish by statute contribution rates that regular members and their employers pay, the benefits members can receive, and which public employers will participate in IPERS. The Legislature and Governor must approve any changes to IPERS' statutes that are proposed by an IPERS board, administration, or constituency group. They also authorize

spending from the IPERS Trust Fund for administrative expenses that are not related to investments.

It is mandatory for most public employees to become IPERS members when they start work at any public employer that participates in IPERS. They remain members as long as they are contributing to IPERS, have money in the system, or are receiving retirement benefits.

IPERS' administration collects employee and employer contributions and invests the money held in trust.

IPERS pays monthly annuities, disability benefits, or death benefits to members who have earned benefits, or to their beneficiaries. IPERS also provides refunds to employees who leave public service and want to withdraw their money from IPERS.

The **IPERS Trust Fund** is composed of contributions from members and their employers **plus** investment income **minus** benefits and refunds paid and expenses.

### Membership

IPERS' membership includes active, inactive, and retired members. Active members are public employees who are currently working and contributing to IPERS; almost half work in education.

Inactive members are former public employees who have money in IPERS but are not currently contributing. Vesting requires four years of service or attaining 55 years of age.

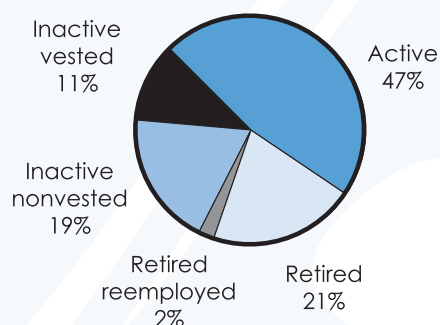
Retired members are those members who are drawing pension benefits.

During FY2004, the IPERS contribution rate for regular members was 9.45 percent of their covered wages. This rate has not changed since it was set by statute in 1979. Members paid approximately 40 percent of the contribution and their employers paid approximately 60 percent.

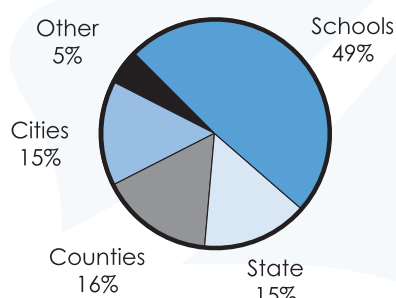
IPERS' actuary determines the contribution rate for Special Service members, which include sheriffs,

deputies, airport firefighters, correctional officers, city police, and other protection occupations. In FY2004, the contribution rate for sheriffs, deputies, and airport firefighters was 12.47 percent of their covered wages, and the rate for other protection occupations was 14.83 percent. All Special Service members paid 40 percent of the actuarially determined contributions and their employers paid 60 percent.

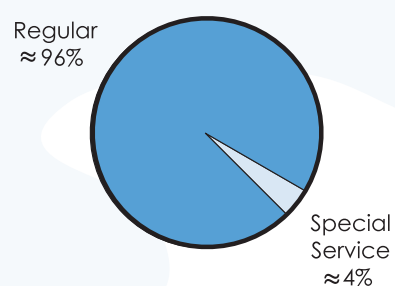
IPERS' 340,044 MEMBERS



160,034 ACTIVE MEMBERS AT WORK



ACTIVE MEMBERS BY TYPE



### Financial

#### STATEMENT OF PLAN NET ASSETS as of June 30, 2004

<b>Assets</b>	
Cash and cash equivalents	\$68,069,302
Receivables	484,161,533
Investments at fair market value	19,643,512,692
Capital assets	4,320,530
<b>Total Assets</b>	<b>20,200,064,057</b>
<b>Liabilities</b>	
Accounts payable and accrued expenses	27,998,555
Payable for investments purchased	1,162,958,367
Rebates and collateral payable	1,736,444,175
Foreign exchange contracts payable	22,746,109
<b>Total Liabilities</b>	<b>2,950,147,206</b>
<b>Net Assets Held in Trust for Pension Benefits</b>	<b>\$17,249,916,851</b>

#### STATEMENT OF CHANGES IN PLAN NET ASSETS as of June 30, 2004

<b>Additions</b>	
Total contributions	\$506,635,111
Net investment income	2,172,503,187
Net securities lending income	4,762,031
Total other sources	72,000
<b>Total Additions</b>	<b>2,683,972,329</b>
<b>Deductions</b>	
Benefit payments	792,866,773
Member and employer refunds	36,430,011
Administrative expense	7,959,601
<b>Total Deductions</b>	<b>837,256,385</b>
<b>Net Increase</b>	<b>1,846,715,944</b>
Net assets held in trust at beginning of year	15,403,200,907
<b>Net Assets Held In Trust at End of Year</b>	<b>\$17,249,916,851</b>

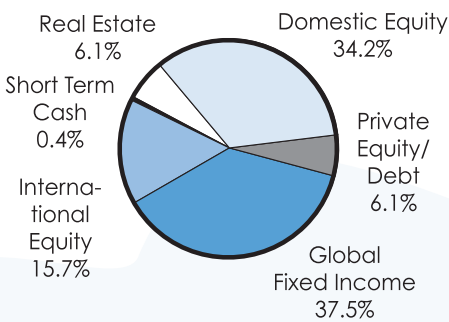
# Investments

At the close of fiscal year 2004, IPERS' net investment portfolio assets had a fair value of \$17,229,666,017\*, an increase of \$1,854,395,725 from the \$15,375,270,292 net investment asset fair value as of June 30, 2003. The largest factor contributing to the increase was the positive investment portfolio return of 13.78 percent.

The total 10-year return on investments was 10.27 percent. While IPERS' 10-year return continues to benefit from the strong capital market performance of the late 1990s, such high levels of returns are not expected to continue over the next 10 years.

As is typical in mature pension systems, IPERS used investment assets to supplement employer and

SUMMARY OF INVESTMENTS BY ASSET CLASS as of June 30, 2004



employee contributions in funding benefit payments, member refunds, and expenses. For FY2004, \$322,661,673 of investment portfolio assets were used to fund benefits and other expenses.

\*Net of all investment receivables, payables, and securities lending collateral.

IPERS' INVESTMENT RETURNS AS OF JUNE 30, 2004 Compared with the System's long-term performance expectations				
	1 Year	3 Years <sup>1</sup>	5 Years	10 Years
Total Fund Return <sup>2</sup>	13.78%	4.52%	4.23%	10.27%
Policy Benchmark <sup>3</sup>	14.55%	5.16%	3.80%	9.43%
Median Return—Large Public Pension <sup>4</sup>	15.88%	4.22%	3.66%	9.80%
Inflation Rate +3% <sup>5</sup>	6.27%	5.15%	5.68%	5.51%
Actuarial Return Assumption	7.50%	7.50%	7.50%	7.50%

<sup>1</sup> Returns for periods longer than 1 year are annualized.

<sup>2</sup> Net of fees.

<sup>3</sup> A benchmark comprised of market indices and weightings of same, that reflects IPERS' asset allocation.

<sup>4</sup> Trust Universe Comparison Service Public Funds Greater than \$1 Billion.

<sup>5</sup> Inflation as measured by the Consumer Price Index.

# Notes and Numbers for FY2004

## DURING FY2004

- IPERS paid almost \$793 million in benefits.
- Nearly 89 percent of the benefits were paid to retirees and beneficiaries living in Iowa.
- IPERS paid more than 87 percent of pension payments by electronic funds transfer.
- There were 4,943 members who retired during the year, and on June 30, 2004, IPERS had 76,961 retired members.
- IPERS' benefits staff answered 89,875 phone calls and 3,859 e-mails about benefits.
- 78,248 estimates of benefits were prepared.
- More than 10,000 members received group and individual benefit education and pre-retirement counseling.
- Members submitted 2,713 applications to buy service credit, and 1,652 members purchased service credit.
- Visitors to the IPERS Web site viewed 851,658 pages, downloading 210,813 forms and publications.
- Investment management expenses were held to \$31.2 million, 0.19 percent of the portfolio's total quarterly average fair value and well below the 0.40 percent allowed by law.

## 2004 LEGISLATION

- To address the increasing unfunded actuarial liability, in 2004 IPERS requested from the Iowa Legislature, but did not receive, a contribution rate increase for the approximately 96 percent of membership who are regular members.
- The bill that was passed by the Legislature made administrative and plan changes to IPERS, including:
- Reducing the age at which sheriffs and deputy sheriffs can retire, the costs for which will be shared equally by those employees and employers.
  - Reducing the time before licensed health care professionals in some public hospitals can return to work after retirement.
  - Eliminating payment of benefits retroactive to a date that precedes the application date.
  - Requiring that lump sums be paid in lieu of small monthly annuities.
  - Requiring cashouts of small, inactive accounts.
  - Eliminating a provision that allowed inactive members to become eligible for vested member benefits merely by reaching the age of 55.
  - Allowing IPERS to charge a fee to cover the administrative costs of issuing paper benefit checks beginning in July 2005.

# Actuarial

Although current finances are sound, IPERS needs to address long-term funding. IPERS' unfunded actuarial liability (UAL) grew to \$2.176 billion in FY2004. The increase in the UAL over the last four years is a result of previous years' low investment returns and benefit enhancements, a membership that is aging and living longer, and a contribution rate for regular members that has not changed since 1979. The UAL represents the System's accrued liability that exceeds current assets.

It is not unusual for retirement systems to have a UAL. IPERS' UAL is a concern because contributions and investment income are not sufficient to address it. It would take an unrealistically high rate of return every year to address the UAL with

investments alone.

The current contribution rate for regular members is only 90.9 percent of the actuarially required contribution. Contributions should cover normal costs—the portion of costs allocated to the current year of service earned by members who are

working—and an amortization payment on the UAL. The contribution rate for IPERS' regular members is set in law at 9.45 percent of covered wages. The normal cost rate is 9.09 percent. The small difference between the two means there is little to apply to the UAL.

IPERS is 88.6 percent funded. IPERS would be fully (100 percent) funded if there were no UAL (assets = accrued liabilities). Although the FY2004 funded percentage is not in itself a concern, the trend of a decreasing percentage is.

